

## **CALIFORNIA ECONOMIC STRATEGY PANEL**

### **Regional Experience in Rural Economic Regions Work Group**

**Summary**  
**June 20, 2005**

#### **Panel Members**

Assemblymember Juan Arambula  
Malaki Seku-Amen

#### **Technical Advisors and Others:**

Tia Boatman Patterson  
Doug Henton  
Ed Kawahara  
Trish Kelly  
Pat Lanthier  
John Melville  
David Pacheco  
Betty Riley  
Peter Van Zant

#### **Introduction**

Assemblymember Arambula opened the meeting by noting each region has unique circumstances and that there a myriad of regional differences across the State, but with globalization and the international marketplace, all regions are interrelated.

Mr. Seku-Amen commented that quality of life and place is foundational for how to drive rural regions into the future. A common theme discussed was that the attractiveness of place is key for the competitiveness of rural regions – “Staying put is what is important.”

Ed Kawahara explained that the purpose of the Work Group is to discuss the findings from the California Regional Economies Project and, in particular, industry clusters of opportunity in rural regions. The Work Group is to provide recommendations based on this review back to the Economic Strategy Panel. He introduced John Melville to frame the issues for future growth and competitiveness of rural economic regions.

#### **Framing the Issues Regarding the State’s Rural Economic Regions**

John Melville, Director of Collaborative Economics, Inc. presented findings and issues on entrepreneurship in rural California as part of the California Regional Economies Project. The following are the key highlights.

### Changes in Rural Economic Regions

- There is growing economic activity which is taking advantage of the distinct assets of “place.” The term being used is “regional experience.” Industry sectors that make up the cluster of business activities are still being defined.
- The cluster includes distinctive quality of life experiences such as natural and historical places, culture, leisure and recreational activities, and specialty foods, beverage and retail. It also includes quality of place infrastructure such as residential and resort construction and related services, telecommunications and transportation services.
- The key is the progression of an economic value chain – from basic commodities, to making goods, delivering services and staging experiences. The ability to hire workers and provide better salaries improves going up the value chain.
- This is important because an estimated 30% of rural job growth from 1994-2002 has come from regional experience business activities. Establishments, employment and revenues are growing at a higher rate than that of all other rural businesses.

### Rural Entrepreneurship

- Business establishments created in the last five years now account for forty percent of today’s rural economic regions. New establishments are the rural job creator although there is a lot of churn, with many start-ups and a lot going out of business.
- Ninety percent of rural establishments are headquarters or independent operations rather than branch operations and they are the biggest employers (68% of all employment).
- Rural firms stay put – 97% have never moved outside of the county where the business was started.
- The sectors with the most entrepreneurial growth are: regional experience/quality of place – 38%; innovation services (i.e., internet, software design, engineering and design) – 18%; and, health-related diversified services – 16%.

### Conclusions and Implications

- Regional experience related firms and employment is growing in importance.
- Rural entrepreneurship drives rural economic development but is not a top priority by economic development programs.

- There is general growth but not a lot is converting into high rate of growth.
- There is a patchwork of entrepreneurial programs that need to evolve into a true system of support.

### **Summary of the Discussion**

There was extensive discussion regarding rural economic issues. The following provides highlights of the discussion by entrepreneurial issues; internet connectivity issues; growth, planning and infrastructure issues; and, education and training issues. Also, issues discussed that are unique to the San Joaquin Valley Region are highlighted.

### **Entrepreneurial Support Systems**

- It is difficult for many businesses to get access to entrepreneurial support – there is not a continuum – how can there be better support for entrepreneurs and how can firms be linked to create value?
- It is important that local elected officials understand that the economy is not about business relocation but rather entrepreneurship. There is a lack of understanding about the drivers of rural economic development and lack of budget support.
- Rural CAN is tabulating results of survey of rural organizations. They network within their sectors up and down but not horizontally. None focus on entrepreneurship as a strategy.
- Rural economic issues require multi-faceted approaches and the need to pool strategies. Local elected officials need to have a better connection to act regionally.
- How can regions effectively connect resources and build connections for entrepreneurs – there needs to be a system in place. The closure of the Technology Trade and Commerce Agency left gaps in services and increased fragmentation in the delivery of services or awareness of them.
- How can the State make it easier for small businesses? Understand how existing programs can be used. Each region can build a strategy and go to the State in an integrated way, with services integrated to serve regional economies.
- Entrepreneurship is the theme, not business attraction.

### **Internet Connectivity Issues**

- Access to talent and capital happens through networks. The Internet provides the pathways to connectivity – entrepreneurs need access.

- Rural areas are second and third tier markets. With incumbent carriers, few rural areas are and will be covered with wired broadband. There is a role for the State in telecommunications to get these assets to rural entrepreneurs as soon as possible. Bring new technologies like wireless from San Diego and the Silicon Valley – focus on urban/rural linkages.
- There is some capacity but restricted in and for the use of educational and health care systems because of source of funding restrictions.
- The PUC recently issued a report on broadband and there is little mention of the rural issue of lack of access and capacity. Rural areas continue to be unconnected. The analysis leaves behind major sections of the California economy.

#### Growth, Planning and Infrastructure Issues

- New entrepreneurs from the outside are helpful, but their impact does not address the people who are already living in rural areas with economic challenges.
- Poor communities do not have the ability to put in place regular infrastructure and there is a scarcity of water in many places. Population is projected to double in some places but water supply will not keep up and new development patterns are often inefficient. There is a lot of growth but many communities are not well equipped. Higher density is needed as well as infrastructure investment.
- There is a division between recent and older residents and some friction. Youth are potential entrepreneurs but there is a brain-drain due to lack of employment opportunities.
- Air pollution is a challenge – need to attract clean industry.

#### Education and Training Issues

- Since jobs are coming from smaller and newer firms it is important for education and training systems to be aligned with this new reality. It is difficult to aggregate demand for skills training for small firms. Encourage a cluster-driven approach.
- Health services is a growing sector with good career potential. There are career opportunities, some that depend on state budget decisions, such as pay rates for in-home health services.
- Jobs in the Regional Experience cluster could provide some upward mobility but this requires “up-skilling.”

- Workers are needed with the right combination of skills to support small enterprises.
- It is possible to match jobs to people without higher education – provide rudimentary computer skills – “there is technology dispersion” through laptops and wireless technologies that are being used across many different industries.

### San Joaquin Valley Region’s Growth and Competitive Issues

- The central and southern San Joaquin Valley Region’s experience is different from the coastal and foothill regions.
- In Assemblymember Arambula’s District, the average education is 6<sup>th</sup> grade, there is a drug problem, there is over-emphasis in seasonal agriculture, lack of infrastructure including human resources, problems with water, friction with arrival of new immigrants, problems with air pollution and the brightest youths leave the region.
- A recent federal law prohibits the use of Workforce Investment Act (WIA) funds for training farmworkers.
- The challenge is how to foster entrepreneurship and being creative in land-use needs for higher density and development.

### Preliminary Recommendations

Through the course of the discussion, a variety of recommendations and points were made to take back to the full California Economic Strategy Panel. The preliminary recommendations and points include the following.

- Priority issues are broadband capacity, health care, growth and regional planning, workforce development and building entrepreneurship support networks.
- One role for the Panel is to communicate new research findings that can provide a common framework for developing economic strategies at the State and regional levels and help link workforce and economic development. The work should build on those efforts already underway.
- With job growth coming from more recent entrepreneurs, there are implications for the way economic development strategies have been focused. For example, there may not be as much of a need for industrial parks if these small firms can fit into the pattern of existing communities. This can renovate and rejuvenate downtowns and contribute to working closer to where they live.

- The focus on formation of new businesses and growing existing businesses, rather than looking to attract large firms as the silver bullet that will fix the economy, requires a mind shift.
- The leadership of the Governor and the Legislature is required to get people out of their silos – not just government but a myriad of organizations.
- There should be rural representation through appointments on the PUC, on the Community Colleges governing board and other entities.
- The San Joaquin Valley Region should be looked at to address unique conditions and recommend opportunities for economic growth.

### **Next Steps**

The Work Group agreed to focus on communicating the importance of entrepreneurs as drivers of the rural economy and implications for policy changes; further exploring the PUC broadband capacity issue; and, convening of organizations such as Community College Chancellor's Office, California State Association of Counties, League of Cities and California Association for Local Economic Development and relevant state agencies for better network development and strategic planning (horizontal integration of resources) that fosters economic development and growth.